

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Economic Development Corp. of Chippewa Co.</b>	County <b>Chippewa</b>
Audit Date <b>12/31/05</b>	Opinion Date <b>1/12/06</b>	Date Accountant Report Submitted to State: <b>2/24/06</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Anderson, Tackman &amp; Company, PLC</b>			
Street Address <b>16978 S. Riley Avenue</b>	City <b>Kincheloe</b>	State <b>MI</b>	ZIP <b>49788</b>
Accountant Signature <i>Anderson Tackman &amp; Co PLC</i>		Date <b>2/24/06</b>	

**ECONOMIC DEVELOPMENT CORPORATION  
OF CHIPPEWA COUNTY**

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**BASIC FINANCIAL STATEMENTS  
AND MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEAR ENDED DECEMBER 31, 2005**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
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**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**INDEPENDENT AUDITOR'S REPORT**

Members of the Board  
Economic Development Corporation  
of Chippewa County  
Kincheloe, Michigan 49788

We have audited the accompanying financial statements of the business-type activity, major fund, and the aggregate remaining fund information of the Economic Development Corporation of Chippewa County, Michigan (a component unit of Chippewa County) as of and for the year ended December 31, 2005, which collectively comprise the Economic Development Corporation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Economic Development Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activity, major fund, and the aggregate remaining fund information of the Economic Development Corporation of Chippewa County, Michigan, as of December 31, 2005, and the respective changes in financial position, and cash flows where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 12, 2006 on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the basic financial statements. The schedule presented in the "Supplemental Information" section are for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in blue ink that reads "Anderson, Tackman & Co. PLC".

**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

January 12, 2006

## **Management's Discussion and Analysis**

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This section of the Economic Development Corporation of Chippewa County, annual financial report presents our discussion and analysis of the Economic Development Corporation financial performance during the fiscal year that ended on December 31, 2005. Please read it in conjunction with the financial statements, which follow this section.

## FINANCIAL HIGHLIGHTS

Revenue increased by \$154,216 or 11% over 2004 levels:

General	\$	60,093	325 %
Airport		100,966	17 %
Industrial Park		44,988	20 %
General Motors		(51,831)	(8)%

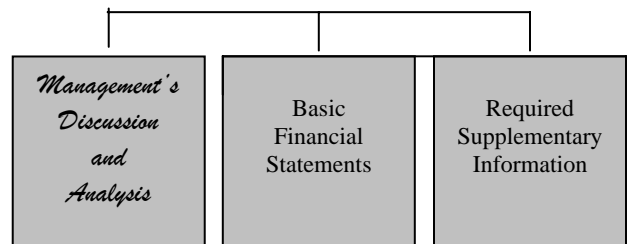
Total operational expenses, including depreciation, for the year were \$2,569,482 or 7% more than the previous year.

The airport participated in the FAA's Airport Improvement Program, totaling \$1,582,580, for: replacement of slabs of the commercial runways, security enhancement; as well as airport layout plan and master plan updates.

## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the Economic Development Corporation.

**Figure A-1**  
**Components of Chippewa County**  
**Economic Development Corporation**  
**Financial Report**



- The financial statements provide both long-term and short-term information about the overall financial status of the Economic Development Corporation, including long term financing that is used to finance capital improvements such as facility restoration and development of new programs.

**FINANCIAL ANALYSIS OF THE ECONOMIC DEVELOPMENT CORPORATION**

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of supplemental information that further explains and supports the information in the financial statements. Figure A-1 shows how the sections of this annual report are arranged and relate to one another.

Table A-1  
Economic Development Corporation of Chippewa County  
(in thousands of dollars)

	Corporate Activities		Total Percentage Change 2004-2005
	2004	2005	
Current and other assets	\$ 1,054	\$ 962	(8.73)%
Capital assets	<u>19,592</u>	<u>20,226</u>	<u>3.24</u> %
<b>Total assets</b>	<b>20,646</b>	<b>21,188</b>	<b>2.63</b> %
Current liabilities	755	671	(11.13)%
Long-term debt outstanding	<u>114</u>	<u>77</u>	<u>(32.46)</u> %
<b>Total liabilities</b>	<b>869</b>	<b>748</b>	<b>(13.93)%</b>
Net assets			
Invested in capital assets, net of related debt	19,020	19,733	3.75 %
Unrestricted	<u>756</u>	<u>707</u>	<u>(6.49)</u> %
<b>Total net assets</b>	<b><u>\$ 19,776</u></b>	<b><u>\$ 20,440</u></b>	<b><u>3.36</u> %</b>

Net assets of the Economic Development Corporations increased 3.36% to almost \$20.5 million. However, only 3.46% of net assets are not restricted.



**FINANCIAL ANALYSIS OF THE ECONOMIC DEVELOPMENT CORPORATION (Continued)**

Table A-2  
Economic Development Corporation of Chippewa County  
Changes in Net Assets  
(in thousands of dollars)

	Corporate Activities		Total Percentage Change 2004-2005
	2004	2005	
<b>Revenues</b>			
Charges for services	\$ 1,486	\$ 1,640	10.37 %
Interest & other	1,440	1,619	12.43 %
<b>Total Revenues</b>	<b>2,926</b>	<b>3,259</b>	<b>11.38 %</b>
<b>Expenses</b>			
Operations	2,414	2,570	6.47 %
Interest expense	25	25	- %
<b>Total Expenses</b>	<b>2,439</b>	<b>2,595</b>	<b>6.40 %</b>
<b>Changes in net assets</b>	<b>487</b>	<b>664</b>	<b>36.35 %</b>
<b>Beginning net assets</b>	<b>19,289</b>	<b>19,776</b>	<b>2.53 %</b>
<b>Ending net assets</b>	<b>\$ 19,776</b>	<b>\$ 20,440</b>	<b>\$ 3.36 %</b>

Total revenues increased 11.38%, most of which is attributable to a change in grant fund accounting. Total expenses increased by 6.4% due primarily to increased capital outlay expenditures, plus program improvements and inflationary cost increases.

**CAPITAL ASSETS**

At the end of 2005, the Economic Development Corporation had increased investment in capital assets by \$1.673 million including improvements, new machinery, and equipment.

Table A-3  
Economic Development Corporation of Chippewa County  
Capital Assets  
(in thousands of dollars)

	Corporate Activities		Total Percentage Change 2004-2005
	2004	2005	
Improvements	\$ 8,945	\$ 10,451	16.84 %
Land	1,947	1,947	- %
Buildings	10,129	10,129	- %
Vehicles and equipment	4,132	4,299	4.05 %
<b>Totals</b>	<b>\$ 25,153</b>	<b>\$ 26,826</b>	<b>6.67 %</b>

**DEBT OBLIGATIONS**

	Corporate Activities		Total Percentage Change 2004-2005
	2004	2005	
Leases payable	\$ 38,161	\$ 13,753	(63.96)%
Notes payable	62,744	49,751	(20.71)%
Revolving line of credit	470,087	429,379	(8.66)%

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

The Corporation anticipates a five year lease agreement, for three parcels of land, totaling 8.8 acres, as well as two buildings, totaling 12,592 SF, to be executed/commenced during the year. The project will receive financial assistance, in the amount of \$120,000, for building renovations, through a Community Development Block Grant, to be administered by the EDC.

The Corporation will complete an electrical upgrade project in one of its buildings, which will result in rental "premiums" to the EDC, as a means of recouping its investments.

The Corporation will negotiate a new five year winter automotive testing agreement.

The EDC will conclude its risk sharing agreement with Northwest Airlines, in cooperation with MMTSB – Aeronautics, early in the year 2006. Project close-out will necessitate payment, by the EDC, to Northwest Airlines, in the sum of \$20,000.

The Corporation is anticipating improved return on its various investments as interest rates improve.

The Corporation's 2006 operational budget forecasts a 4% (\$67,597) increase in revenues, while projecting a 2.8% (\$46,420) reduction in operational expenses, as compared with 2005 levels.

**CONTACTING ECONOMIC DEVELOPMENT CORPORATION OF CHIPPEWA COUNTY  
FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Economic Development Corporation of Chippewa County finances and to demonstrate Economic Development Corporation of Chippewa County accountability for the money it receives for the construction, improvement and maintenance of development programs. If you have questions about this report or need additional financial information, contact the Economic Development Corporation of Chippewa County administrative office at 5019 W. Airport Drive, Kincheloe, Michigan 49788.

## **Basic Financial Statements**

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# Economic Development Corporation of Chippewa County

## Statement of Net Assets December 31, 2005

### ASSETS:

#### Current Assets:

Cash and Equivalents	- Unrestricted	\$	323,649
	- Restricted		451,872
Interest Receivable			878
Accounts Receivable			147,679
Inventory			<u>38,431</u>
Total Current Assets			<u>962,509</u>

#### Capital Assets:

Construction in Progress			247,450
Land			1,946,675
Buildings			10,128,618
Vehicles			1,080,855
Equipment			3,218,596
Improvements			10,450,531
Infrastructure (See Note 2)			-
Accumulated Depreciation			<u>(6,846,890)</u>
Total Capital Assets			<u>20,225,835</u>
Total Assets			<u>\$ 21,188,344</u>

### LIABILITIES AND NET ASSETS:

#### Current Liabilities:

Short Term Note Payable	\$	429,379
Accounts Payable and Other Liabilities		75,336
Amounts Due to Primary Government		65,597
Current Maturities on Debt Obligations		35,045
Deferred Revenue		<u>65,597</u>
Total Current Liabilities		<u>670,954</u>

#### Long-Term Liabilities:

Notes and Leases Payable		28,459
Vested Sick Pay		<u>48,735</u>
Total Long-Term Liabilities		<u>77,194</u>
Total Liabilities		<u>\$ 748,148</u>

#### Net Assets:

Invested in Capital Assets (net of related debt)		19,732,952
Unrestricted		<u>707,244</u>
Total Net Assets		<u>\$ 20,440,196</u>

# Economic Development Corporation of Chippewa County

## Statement of Revenues, Expenses, and Changes in Net Assets Year Ended December 31, 2005

OPERATING REVENUES:	
Leases and Rentals	\$ 512,917
Passenger Facility Charge	3,946
Expense Reimbursements	452,354
Airport Fees	514,856
Others	<u>156,330</u>
Total Operating Revenues	<u>1,640,403</u>
OPERATING EXPENSES:	
Compensation and Fringe Benefits	547,026
Utilities	184,364
Board of Directors	19,747
Travel	2,684
Advertising and Promotion	24,855
Office	10,291
Contracted Services	7,854
Repair and Maintenance	146,142
Depreciation	1,056,752
Insurance	50,447
Supplies	485,565
Other	<u>33,755</u>
Total Operating Expenses	<u>2,569,482</u>
Operating Income (Loss)	<u>(929,079)</u>
NON-OPERATING REVENUES (EXPENSES):	
Grants	1,603,104
Interest Income	15,354
Interest Expense	<u>(25,528)</u>
Total Non-Operating Revenues (Expenses)	<u>1,592,930</u>
Changes in Net Assets	663,851
Net Assets, Beginning of Year	<u>19,776,345</u>
NET ASSETS, END OF YEAR	<u>\$ 20,440,196</u>

# Economic Development Corporation of Chippewa County

## Statement of Cash Flows Year Ended December 31, 2005

### CASH FLOWS FROM OPERATING ACTIVITIES

Receipts from Customers	\$ 1,697,205
Payments to Employees	(539,609)
Payments to Suppliers	(988,778)
Other Receipts (Payments)	<u>(41,637)</u>
Net Cash Provided (Used) by Operating Activities	<u>127,181</u>

### CASH FLOWS FROM NONCAPITAL AND RELATED FINANCING ACTIVITIES

Nonoperating grants	<u>71,451</u>
Net Cash Provided (Used) by Noncapital and Related Financing Activities	<u>71,451</u>

### CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital Grants	1,531,653
Acquisition and Construction of Capital Assets (net)	(1,690,887)
Interest Paid on Notes and Leases Payable	(25,528)
Principal Paid on Notes and Leases Payable	<u>(78,109)</u>
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(262,871)</u>

### CASH FLOWS FROM INVESTING ACTIVITIES

Interest on Investments	<u>15,354</u>
Net Cash Provided (Used) by Investing Activities	<u>15,354</u>
Net Cash Provided (Used) – All Activities	(48,885)
Cash and Cash Equivalents at Beginning of Year	<u>824,406</u>
Cash and Cash Equivalents at End of Year	<u>\$ 775,521</u>

### RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES

Operating Income (Loss)	\$ (929,079)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:	
Depreciation Expense	1,056,752
Change in Assets and Liabilities:	
Receivables, net	56,802
Inventories	(14,333)
Accounts and Other Payables	(15,657)
Deferred Revenue	<u>(27,304)</u>
Net Cash Provided by Operating Activities	<u>\$ 127,181</u>

Other Non-Cash Transactions:	
Purchase of Capital Assets with Grants	<u>\$ 1,531,653</u>

## **Notes to Financial Statements**

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**NOTE 1 - REPORTING ENTITY:**

In accordance with the criteria established by the Governmental Accounting Standards Board, the Economic Development Corporation of Chippewa County is considered a component unit of Chippewa County for financial accounting and reporting purposes. These criteria include: the extent of oversight responsibility, selection of governing authority, designation of management, the ability of the County to significantly influence operations, the accountability for fiscal matters including the level of County financing and/or moral or legal responsibility for long-term debt. Therefore, the financial statements of the Economic Development Corporation of Chippewa County are presented as the financial statements of a component unit, which is an integral part of the financial reporting oversight unit of the County of Chippewa, Michigan.

The Economic Development Corporation of Chippewa County, organized pursuant to Act 338 of the Michigan Public Acts of 1974, as amended, for the purpose of strengthening and revitalizing the economy of Chippewa County.

The Corporation is a public corporate body, constituting an instrumentality of the County of Chippewa, Michigan, which exercises its prescribed statutory powers, duties and functions within, but independently of Chippewa County. It has been granted the management and control of properties and grants obtained when the Kincheloe Air Force Base was closed.

The Corporation consists of nine members, all appointed by the County, for terms of six years each, but no more than three members appointed shall be members of the County Board.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The financial statements of the Economic Development Corporation of Chippewa County, have been prepared on the accrual basis. The significant accounting policies are described below to enhance the usefulness of the financial statements.

The Board applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

**FUND ACCOUNTING**

To ensure observance of limitations and restrictions placed on the use of resources available to the Corporation, the accounts are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds established according to their nature and purposes. Separate accounts are maintained for each cost center. The assets, liabilities and net assets of the Corporation are recorded in self-balancing accounts, one major fund as follows:

- General Operations
- Airport
- Industrial Park
- G.M. Operations



**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)**

Business-type activity funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for rent and sales. Operating expenses for proprietary funds include the cost of sales and services, and administrative expenses. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. There is only one major fund, the operating fund.

**Assets, Liabilities, and Net Assets or Equity****Cash, Cash Equivalents and Investments**

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired.

**Accounts Receivable**

The Corporation has not established an allowance for uncollectible accounts since, in the opinion of management the amount is not significant.

**Inventories**

Fuel inventories are priced at cost as determined on the average unit cost method. Inventory items are charged to fuel purchases as acquired.

**Prepaid Expenses**

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in the fund financial statements.

**Capital Assets**

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., runways, rails, fencing, and similar items), are reported in the operating fund in the government-wide financial statements. Capital assets are defined by Economic Development Corporation of Chippewa County as assets with an initial individual cost of more than \$10,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

GASB Statement 34 requires major networks and major subsystems of infrastructure assets acquired, donated, constructed, or substantially rehabilitated since fiscal years ending June 30, 1980 be inventoried and capitalized by the fourth anniversary of the mandated date of adoption of the other provisions of GASB Statement No. 34. The EDC of Chippewa County has capitalized the current year's infrastructure, as required by GASB Statement 34, and has reported the infrastructure assets in the statement of net assets.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)****Depreciation**

Depreciation is computed on the straight-line method for all assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Building	30 to 50 years
Improvements	5 to 20 years
Vehicles	4 to 10 years
Equipment	4 to 10 years
Infrastructure	8 to 30 years

**Long-Term Obligations**

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the operating fund statement of net assets.

**Compensated Absences (Vacation and Sick Leave)**

The accumulation of vacation hours for employees is based on time earned at current pay rates. Employees accrued vacation time on a scale based on longevity between 4 and 13 hours per month. Vacation pay is not remitted upon severance. Each regular employee hired after 1993 is provided with payment for sick leave not used of \$40 per day to a maximum of 30 days. Administrative employees are provided with 10 hours per month of sick leave benefit. Each employee receives payment for leave not used as of retirement up to a maximum of 960 hours after ten years of service.

**Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and affect the disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 3 - CASH AND INVESTMENTS:**

Imprest Cash	\$ 480
Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)	<u>775,041</u>
Total Cash	<u>\$ 775,521</u>

**NOTE 3 - CASH AND INVESTMENTS: (Continued)**

Michigan Compiled Laws, Section 129.91, authorizes the Corporation to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the state of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Corporation has adopted the County's investment policy, which is in accordance with the provisions of Public Act 196 of 1997.

	<u>Carrying Amount</u>	<u>Financial Institution Balance</u>
Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 775,041	\$ 819,579
Petty Cash	480	-
Total	<u>\$ 775,521</u>	<u>\$ 819,579</u>

*Interest rate risk.* The Corporation does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit risk.* State law limits investments in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by nationally recognized statistical rating organizations. The Corporation has no investment policy that would further limit its investment choices.

*Custodial deposit credit risk.* Custodial deposit credit risk is the risk that in the event of a bank failure, the Corporation's deposits may not be returned. State law does not require and the Corporation does not have a policy for deposit custodial credit risk. As of year end, \$643,009 of the Corporation's bank balance of \$819,579 was exposed to credit risk because it was uninsured and uncollateralized.

**Restricted Cash**

Cash is reserved in the Building Fund in the amount of \$416,949, which represents the entire cash balance for the fund. All disbursements from this fund are limited to the maintenance, operation, and capital improvements of the industrial park buildings.

Cash is reserved for payment of vested sick pay in the amount of \$34,923.

**NOTE 4 - CAPITAL ASSETS:**

A summary of capital assets follows:

	<u>01/01/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>12/31/05</u>
Assets, not depreciated:				
Construction in progress	\$ 247,450	\$ -	\$ -	\$ 247,450
Land	<u>1,946,675</u>	<u>-</u>	<u>-</u>	<u>1,946,675</u>
Subtotal	<u>2,194,125</u>	<u>-</u>	<u>-</u>	<u>2,194,125</u>
Assets, depreciated:				
Vehicles	1,081,800	3,055	(4,000)	1,080,855
Improvements	8,945,009	1,514,410	(8,888)	10,450,531
Buildings	10,128,618	-	-	10,128,618
Equipment	<u>3,050,568</u>	<u>173,422</u>	<u>(5,394)</u>	<u>3,218,596</u>
Subtotal	<u>23,205,995</u>	<u>1,690,887</u>	<u>(18,282)</u>	<u>24,878,600</u>
Less: accumulated depreciation	<u>(5,808,420)</u>	<u>(1,056,752)</u>	<u>18,282</u>	<u>(6,846,890)</u>
Capital assets, net	<u>\$ 19,591,700</u>	<u>\$ 634,135</u>	<u>\$ -</u>	<u>\$ 20,225,835</u>

**NOTE 5 - LONG-TERM DEBT:**

Long-term debt consists of the following:

	<u>Balance 01/01/05</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balance 12/31/05</u>	<u>Due Within One Year</u>
Installment payable to Michigan Aeronautics Commission, payable annually (October) in the amount of \$12,763, including interest of 4.7% per annum. Matures in 2008, general obligation debt.	\$ 46,000	\$ -	\$ (10,621)	\$ 35,379	\$ 11,420
Installment Payable to the Michigan Department of Transportation, payable annually, \$8,372 principal plus interest at 2% below prime, unsecured.	16,744	-	(8,372)	8,372	8,372
Installment Payable to the Michigan Department of Transportation, payable annually, \$1,500 principal plus interest at 2% below prime, unsecured.	<u>-</u>	<u>6,000</u>	<u>-</u>	<u>6,000</u>	1,500
TOTAL LONG-TERM DEBT	<u>\$ 62,744</u>	<u>\$ 6,000</u>	<u>\$ (18,993)</u>	<u>\$ 49,751</u>	

**NOTE 5 - LONG-TERM DEBT: (Continued)**

A summary of debt service requirements is as follows:

<u>Year</u>	<u>General Obligation Debt</u>		<u>Totals</u>
	<u>Principal</u>	<u>Interest</u>	
2006	\$ 21,292	\$ 1,763	\$ 23,055
2007	13,143	1,210	14,353
2008	13,816	633	14,449
2009	<u>1,500</u>	<u>30</u>	<u>1,530</u>
TOTAL	<u>\$ 49,751</u>	<u>\$ 3,636</u>	<u>\$ 53,387</u>

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT:**

Defined Benefit Pension Plan (Michigan Municipal Employees' Retirement System)

**Plan Description** – The Economic Development Corporation participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees of the Chippewa County Unit. The system provides retirement, disability and death benefits to plan members and their beneficiaries. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at: 447 North Canal Street, Lansing, Michigan.

**Funding Policy** – The obligation to contribute and maintain the system for these employees requires an employer contribution of 5.63% of wages for general employees and 4.97% for officials. Employees are required to contribute 2% and officials are required to contribute 4% of gross wages to the plan.

**Annual Pension Costs** – For year ended 2005, the Corporation's annual pension cost of \$18,408 for the plan was equal to the required and actual contribution. The annual required contribution was determined as part of an actuarial valuation as December 31, 2002, using the age normal cost method. Significant actuarial assumptions used include: (i) a 8% investment rate of return; (ii) projected salary increases of 4.5 percent per year. Both determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percent of payroll on a closed basis. The remaining amortization period is 30 years.

**NOTE 6 - EMPLOYEE RETIREMENT AND BENEFIT: (Continued)**

Three year trend information as of December 31 (should be as of the date of the actuaries report) follows:

<b>GENERAL</b>			
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Actuarial Value of Assets	\$ 357,896	\$ 404,153	\$ 446,989
Actuarial Accrued Liability	421,984	461,885	424,633
Unfunded AAL	64,088	57,732	(22,356)
Funded Ratio	85%	88%	105%
Covered Payroll	225,701	230,614	167,596
UAAL as a Percentage of Covered Payroll	28%	25%	0%
<b>OFFICIALS</b>			
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Actuarial Value of Assets	\$ 198,305	\$ 222,354	\$ 244,406
Actuarial Accrued Liability	235,548	255,278	257,703
Unfunded AAL	37,243	32,924	13,297
Funded Ratio	84%	87%	95%
Covered Payroll	52,617	54,203	54,203
UAAL as a Percentage of Covered Payroll	71%	61%	25%

<u>Year Ended Dec 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2002	\$ 18,875	100%	0
2003	22,600	100%	0
2004	21,163	100%	0

**Defined Contribution Pension Plan (Michigan Municipal Employees Retirement System)**

The Corporation provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. As established by agreement, the Corporation contributes a varying percentage of gross earnings. Contributions for each employee (plus interest allocated to the employee's account) are fully vested.

The Corporation's total payroll during the current year was \$385,408. The current year contribution was calculated based on covered payroll of \$386,914 resulting in an employer contribution of \$18,408 and employee contributions of \$5,801.

**NOTE 7 - LEASES COMMITMENTS:**

The Economic Development Corporation entered into a capital lease obligations as listed below:

	<u>Equipment Lease</u>
2005	<u>\$ 14,615</u>
Total	<u><u>\$ 14,615</u></u>
Interest Charges	<u>\$ 862</u>
% Interest	6.267%
Annual Payment	\$ 14,615

**NOTE 8 - COMMITMENTS AND CONTINGENCIES:**

The Economic Development Corporation has continuing contractual commitments of \$43,304 for master plan engineering and development. It is anticipated the project will be funded with federal and state grants and corporate resources. The project was approximately 85% complete at fiscal year end.

Grants - The Corporation has received significant financial assistance from state and federal agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the Corporation. In the opinion of management, any such disallowed claims may have a material effect on any of the financial statements included herein or on the overall financial position of the Corporation at December 31, 2005.

Risk Management - The Corporation is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Corporation was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The Corporation joined together with the County and created a public entity risk pool currently operating as a common risk management and insurance program. The Corporation pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$1,000 for each insured event. The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The Corporation is unable to provide an estimate of the amounts of additional assessments.

**NOTE 9 - SHORT TERM NOTES PAYABLE:**

Short-term debt consists of the following:

	Balance 01/01/05	Additions	Deletions	Balance 12/31/05
Installment payable to a local financial institution, monthly at 4.2% interest, matures July 2006.	\$ 470,087	\$ -	\$ (40,708)	\$ 429,379

**NOTE 10 - POST EMPLOYMENT BENEFITS:**

In addition to the pension benefits, the EDC will provide post-employment health care insurance benefits to those employees hired prior to January 1, 1990. The EDC will pay a portion of premiums, up to full "family" limits at various rates based on the years of service and age as described in the EDC Policy. As of December 31, 2005, no employees were eligible to receive benefits.



## **Supplemental Information**

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# Economic Development Corporation of Chippewa County

## Combining Statement of Operating Revenues and Expenses For the Year Ended December 31, 2005

	<u>General Operations</u>	<u>Airport</u>	<u>Industrial Park</u>	<u>GM Project</u>	<u>Total</u>
<b>OPERATING REVENUES:</b>					
Leases and Rentals	\$ -	\$ 172,267	\$ 270,609	\$ 70,041	\$ 512,917
Passenger Facility Charge	-	3,946	-	-	3,946
Expense Reimbursements	-	-	-	452,354	452,354
Airport Fees	-	514,856	-	-	514,856
Other	<u>78,585</u>	<u>11,126</u>	<u>-</u>	<u>66,619</u>	<u>156,330</u>
Total Operating Revenues	<u>78,585</u>	<u>702,195</u>	<u>270,609</u>	<u>589,014</u>	<u>1,640,403</u>
<b>OPERATING EXPENSES:</b>					
Compensation and Fringe Benefits	10,940	284,454	32,822	218,810	547,026
Utilities	34,687	81,332	8,524	59,821	184,364
Board of Directors	19,747	-	-	-	19,747
Travel	985	1,699	-	-	2,684
Advertising and Promotion	130	24,725	-	-	24,855
Office	7,984	320	-	1,987	10,291
Contracted Services	6,868	986	-	-	7,854
Repair and Maintenance	15,397	34,131	-	96,614	146,142
Depreciation	26,874	849,303	169,603	10,972	1,056,752
Insurance	32,842	17,605	-	-	50,447
Supplies	61,493	406,860	-	17,212	485,565
Other	<u>12,727</u>	<u>14,891</u>	<u>-</u>	<u>6,137</u>	<u>33,755</u>
Total Operating Expenses	<u>230,674</u>	<u>1,716,306</u>	<u>210,949</u>	<u>411,553</u>	<u>2,569,482</u>
Allocations	<u>(230,674)</u>	<u>168,392</u>	<u>20,761</u>	<u>41,521</u>	<u>-</u>
Total Operating Income (Loss)	<u>78,585</u>	<u>(1,182,503)</u>	<u>38,899</u>	<u>135,940</u>	<u>(929,079)</u>
<b>NON-OPERATING INCOME:</b>					
Grants	-	1,594,732	8,372	-	1,603,104
Interest Income	15,354	-	-	-	15,354
Interest Expense	<u>-</u>	<u>(21,108)</u>	<u>-</u>	<u>(4,420)</u>	<u>(25,528)</u>
Total Non-Operating Income (Expenses)	<u>15,354</u>	<u>1,573,624</u>	<u>8,372</u>	<u>(4,420)</u>	<u>1,592,930</u>
Net Income (Loss)	<u>\$ 93,939</u>	<u>\$ 391,121</u>	<u>\$ 47,271</u>	<u>\$ 131,520</u>	<u>\$ 663,851</u>

## **Report on Compliance**

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**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
SUE A. BOWLBY, CPA, PRINCIPAL  
KENNETH A. TALSMA, CPA, PRINCIPAL  

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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

Members of the Board  
Economic Development Corporation  
of Chippewa County  
Kincheloe, Michigan 49788

We have audited the financial statements of the business-type activity, major fund, and the aggregate remaining fund information of the Economic Development Corporation of Chippewa County, as of and for the year ended December 31, 2005, which collectively comprise the Economic Development Corporation's basic financial statements and have issued our report thereon, dated January 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the Economic Development Corporation of Chippewa County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Economic Development Corporation of Chippewa County financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information of the Board of Commissioners, management and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

January 12, 2006



**ANDERSON, TACKMAN & COMPANY, PLC**  
**CERTIFIED PUBLIC ACCOUNTANTS**

**KINROSS OFFICE**

PHILLIP J. WOLF, CPA, PRINCIPAL  
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DEANNA J. MAYER, CPA

**MEMBER AICPA**  
**DIVISION FOR CPA FIRMS**

**MEMBER MACPA**

**OFFICES IN**  
**MICHIGAN & WISCONSIN**

**REPORT TO MANAGEMENT**

Board of Directors  
Economic Development Corporation  
of Chippewa County  
Kincheloe, Michigan 49788

We have audited the financial statements of the Economic Development Corporation of Chippewa County as of and for the year ended December 31, 2005, and have issued our reports thereon. Our professional standards require that we make several communications to you, the purpose of which is to assist you with additional information regarding the scope and results of the audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

**Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Economic Development Corporation of Chippewa County. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of Economic Development Corporation of Chippewa County's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### **Significant Accounting Policies**

Management has the responsibility for selection of appropriate accounting policies. In accordance with the terms of our engagement, we will advise management of the appropriateness of the accounting policies and their application. The significant accounting policies used by the Board are described in Note 2. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Board during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

### **Audit Adjustments**

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Economic Development Corporation of Chippewa County's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Economic Development Corporation of Chippewa County, either individually or in the aggregate, indicate matters that could have a significant effect on the Economic Development Corporation of Chippewa County's financial reporting process.

### **Disagreement with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether significant or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### **Consultation with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the financial statements or a determination of the type of auditor's opinion to be expressed on those statements, our professional standards require the consulting accountant to advise us as to determine the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### **Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Economic Development Corporation of Chippewa County auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

### **Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in the performance of our audit.

### **Comments and Recommendations**

#### **Store Data Backup Files Off Site (Prior Year)**

Backup copies of data files, programs, and operating systems are made daily, weekly, or monthly. However these backup copies are kept at the administrative office. One of the main reasons for creating backup files is to be able to recover in the event of a disaster, such as fire or water damage. This objective is not served if backup files are not kept separate from the regular files. We recommend that weekly and year-end files be properly labeled and stored off premises in a fireproof vault.

Status: Corrected.

### **GASB Statement 45 – Accounting and Financial Reporting By Employers for Post-Employment Benefits Other Than Pensions**

In June 2004, the GASB issued Statement 45, which establishes standards for the measurement, recognition, and display of other post-employment benefits (OPEB) expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information in the financial reports of state and local governmental employers. OPEB includes post-employment healthcare as well as other post-employment benefits such as life insurance.

The Statement is implemented in three phases, with the Economic Development Corporation of Chippewa County required to implement the Statement for the year ended December 31, 2009. GASB Statement 45 is going to impact the future accounting of post-employment health insurance costs as it relates to the amount the EDC will be required to fund these benefits. Beginning in 2009, the EDC will be required by governmental generally accepted accounting principles to pay the current cost of providing those benefits as well as an amount needed to fund a portion of the unfunded liability relating to the post-employment health benefit. The unfunded liability will be required to be actuarially determined and will be amortized over a period likely not to exceed thirty years. The methods used as part of Statement 45 are similar to those currently used to determine required contribution rates for defined benefit pension plans.



**Conclusion**

We would like to express our appreciation, as well as that of our staff for the excellent cooperation we received while performing the audit. If we can be of assistance, please contact us.

This report is intended solely for the information of the Members of the Board, finance committee, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



**Anderson, Tackman & Company, PLC**  
**Certified Public Accountants**

January 12, 2006